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Monthly Letter on
Economic Conditions
Government Finance

New York, November, 1953

General Business Conditions

THOSE who have looked to the fall season as a testing period for predictions of a business downturn will find little in the record of October to support pessimistic projections. Not only has business in general held up better than expected, but commodity and financial markets as well as such basic indicators as building contract awards, steel and paperboard orders registered renewed strength during the month. Apparently the date of the much advertised "recession" must again be postponed.

Sentiment in business and investment circles has been buoyed both by this demonstration of continuing strength in underlying demand and by the excellent showing of corporation earnings statements now becoming available for the third quarter and the nine months period. With business holding at or near peak levels, and with the nearing prospect of relief from the burdensome excess profits tax at the end of this year, confidence in the maintenance of profitable operations into 1954 has been gaining, and has been reflected in the recovery of prices on the stock exchanges.

Improved Outlook in the Steel Industry

Most impressive evidence of overall industrial activity comes from the steel industry. This, by reason of the far-flung uses for steel, probably serves more than any other as a barometer of general manufacturing – particularly heavy industry and consumer durable goods – and construction.

Whereas a few months ago it was predicted that steel mill operations might drop to 90 per cent of capacity or lower by the year end, actually they have been holding firmly around 95 per cent, with no signs of waning. Indeed, indications are to the contrary. Steel order cancellations, according to trade sources, are tapering off, and consumer inventory correction, regarded as mainly responsible for the softer market tone in earlier weeks, appears to have largely run its course. Recently, Chairman Benjamin F. Fairless, of the United States Steel Corporation, expressed the opinion that operations in the industry as a whole will vary not more than 1 or 2 per cent from the present near-capacity levels during the balance of the fourth quarter, adding: "I'm optimistic for 1954, too. I believe our corporation will average right around 95 per cent during the first quarter of next year." New orders, he stated, "are running at a good rate, although below the feverish pace of the last few years when we were receiving orders well over our ability to produce." He described new orders as currently "nearly in balance" with outbound shipments.

These indications of an improved outlook for steel are supported by strengthening steel scrap prices after ten weeks of decline. Increased competition in the sale of steel products has appeared in freight absorption by mills where

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necessary to obtain business, and in premium price concessions, but has not brought any weakening of basic steel prices.

Autos and Building Holding Fast Pace

One reason for betterment in steel is the continued fast pace of automobile production, which continues to defy predictions of market saturation. Output of passenger cars in October was around 530,000, about the average for the first nine months and 12 per cent greater than in October 1952. With production of passenger cars and trucks during the first nine months numbering 5,772,000 vehicles, and with the factory schedules set up for the fourth quarter, it now appears that combined output of passenger cars and trucks this year may well be within 10 per cent of the record total of approximately 8 million turned out in 1950.

The motor industry is pressing the dealers hard. Stocks of both new and used passenger cars are increasing, used car prices declining, and new cars being sold at discounts in numerous cases, particularly in the clean-up of 1953 models. Experience, however, varies greatly from make to make. New car sales in September and early October were still running at an annual rate over 5 million in response to intensified sales efforts and price concessions. Arthur O. Dietz, president of C.I.T. Financial Corporation, one of the leading instalment finance companies, in reporting on third quarter earnings results to shareholders, characterized the repayment record in retail automobile financing as "very good", with delinquencies at a lower rate than a year ago.

Reports on the construction industry indicate new projects coming forward at a high rate. For the full month of September dollar value of total contract awards was 15 per cent below September 1952, due to large Atomic Energy Commission contracts a year ago; excluding these, awards were 28 per cent higher than last year. Residential contracts were off 2 per cent, and all other than residential up 54 per cent. Actual housing starts in September were, in number, still at an annual rate of close to one million, even though moderately below last year for the third consecutive month.

For the first two weeks of October contract awards showed gains over a year ago both in the residential category and in the total. One important factor sustaining building is the spurt in commercial building, particularly large office structures, held back by restrictions imposed during the Korean war.

Other Indexes of Business

With steel, autos, and construction holding at such a fast clip, it is not surprising to find cheering reports from other quarters. Steel, as stated before, is the great barometer of heavy industry and durable goods, and all three industries provide a vast amount of employment and wages and chew up immense quantities of raw materials the effects of which radiate out through the whole community.

We have referred earlier to the continuing demand for paperboard, used widely for packaging and containers and hence symptomatic of activity in a great variety of consuming industries. In general, the paper market continues firm, with fine paper order backlogs reported rising and a steady call for newsprint and wrapping papers. At the same time reports from some industries heretofore in the doldrums have taken on a brighter hue. An example is in plywood, where prices have been advanced following an upturn in orders.

Even the nonferrous metals, recently weak, appear to have perked up a bit, copper advancing ½ cent on better demand from Europe and some mild revival of spot buying here. Lead, while unchanged in price, has been somewhat more active for the same reasons. Domestic zinc sales continue to drag, but sentiment has improved as a result of the recent falling off in cheap imports due both to the low price and some pick-up in buying abroad.

Some Soft Spots Remaining

The foregoing is not, of course, to imply that everything is on the favorable side and that business is not without its soft spots, some of them chronic and others the result of adjustments to which business is constantly subject. The situation in nonferrous metals, though apparently more encouraging at the moment, is not exactly exuberant, agricultural implements are reflecting diminished farm buying, and some branches of the textile and apparel industries are not doing too well.

Reports in the press tell of scattered lay-offs of workers occurring here and there in different areas, sometimes for seasonal reasons and sometimes because of reduced orders and accumulating inventory. Thus far, however, reflection of such lay-offs is hardly visible in country-wide reported totals of unemployment, which remain near the minimum.

Department stores sales in October dropped slightly behind the same month of 1952. Last year retail trade spurted ahead in October and

December following advances in employment and income which took place after the end of the steel strike.

Total retail sales have done better than department store trade. In September, for instance, all retail sales were 4 per cent higher than in the same month last year, while department store sales were barely equal. This year employment and income have been generally higher, but the fact that about three-fourths of the September gain in all retail trade was accounted for by automobiles tells something about where the public has been spending its money.

It would be rare indeed to find business good in all lines at the same time. In an economy as large and varied as ours some lines are bound to be down while others are up, reflecting changing supply and demand in individual situations, shifting consumer preferences, and differences in managerial ability and skill in adjusting to technological change and new market conditions.

The main thing is in maintaining a general state of overall balance between the various economic groups at a high level of production and employment. Thus adjustments can proceed in orderly fashion, as by and large they have done since the end of World War II. The developments of the past month encourage hope that adjustments now going forward can be taken equally in our stride.

Third Quarter Corporate Earnings

The postwar program of business for expanding its productive capacity has made possible the greatest outpouring of goods the country has ever known. Corporate reports issued during the past month reflect the continuing high level of industrial production and distribution through the third quarter of this year. With comparatively little aid from higher prices, dollar value of sales billed set a new high mark for business as a whole.

Although the prevailing trends this year have been upward for operating expenses and taxes as well as for sales, most companies during the first nine months were able to carry some portion of their gains in gross income through to net. New efficient plants and high-volume operations have helped hold down unit costs and maintain net profit margins per dollar of sales around the same levels as last year. An important factor in the increases over 1952 of both gross and net income was the steel strike during June and July 1952, which tied up that industry and curtailed others dependent upon steel products.

Our tabulation of the reports issued to date by 540 corporations shows combined net income after taxes of $1,463 million in the third quarter, which is approximately the same as in the preceding quarter but 21 per cent higher than in the third quarter of 1952. The group is representative mainly of the larger manufacturing organizations, but it includes also a limited number of companies in the fields of mining, trade, services and amusements. Fluctuations of net income since 1951 may be seen from the following quarterly totals:

Net Income After Taxes of 540 Leading Corporations
(In Millions of Dollars)

	1951	1952	1953	% Change 1952-53
First quarter	$1,484	$1,259	$1,367	+ 9
Second quarter	1,411	1,180	1,462	+24
Third quarter	1,196	1,209	1,463	+21
Nine months	4,041	3,648	4,293	+18
Fourth quarter	1,449	1,588	—	
Year	$5,490	$5,236		

For the first nine months, net income after taxes of the group totaled $4,293 million, an increase of 18 per cent over the corresponding period of 1952. About seven out of ten companies thus far reporting made gains over last year in both the third quarter and nine months. A condensed summary of the changes by major industry groups is given in the table on the next page.

For the first nine months the totals show that the sharpest gains in net earnings were in those lines which experienced the greatest recovery in sales this year from the forced curtailments in 1952 due either to strikes or to slump in demand. In the steel group the rise of 36 per cent in sales from the reduced totals of a year ago was accompanied by an increase of 83 per cent in net income. Their liability for federal taxes on income jumped from approximately $240 million to $880 million or by 267 per cent.

Others showing good increases were the manufacturers of building, heating and plumbing equipment; electrical equipment, radio and television; automobiles, trucks, and parts; and miscellaneous metal products, including aircraft. The textile and apparel group, following a drop of 69 per cent a year ago, experienced a limited rebound of 39 per cent.

As usual, many individual companies showed results counter to the industry composites.

Analysis of 478 manufacturers alone reveals dollar sales billed in the nine months running 19 per cent over last year. Total operating expenses also advanced, but less rapidly, with the income balance before taxes up 31 per cent.

NET INCOME OF LEADING CORPORATIONS FOR THE THIRD QUARTER AND FIRST NINE MONTHS

(In Thousands of Dollars)

No. of Cos.	Industry Groups	Reported Net Income Third Quarter 1952	1953	Per Cent Change	Reported Net Income Nine Months 1952	1953	Per Cent Change
29	Food products	$ 33,084	$ 33,743	+ 2	$ 95,311	$ 106,425	+12
14	Beverages	9,632	10,476	+ 9	24,515	25,959	+ 6
12	Tobacco products	13,709	14,268	+ 4	34,762	39,668	+14
30	Textiles and apparel	12,826	12,702	— 1	33,613	46,889	+39
24	Paper and allied products	23,994	25,679	+ 7	70,251	75,416	+ 7
34	Chemical products	111,702	125,961	+13	340,367	386,514	+14
17	Drugs, soap, cosmetics	28,061	30,204	+ 8	81,834	79,981	— 2
28	Petroleum producing and refining	398,084	474,366	+19	1,224,237	1,322,427	+ 8
31	Cement, glass, and stone	46,378	50,005	+ 8	129,414	143,245	+11
34	Iron and steel	94,476	184,397	+95	289,430	528,331	+83
18	Building, heating, plumbing equipment	9,160	11,978	+31	25,455	32,792	+29
21	Electrical equipment, radio and TV	69,614	76,774	+10	188,154	232,863	+24
38	Machinery	25,095	26,028	+ 4	80,850	82,379	+ 2
10	Office equipment	16,485	15,475	— 6	50,113	49,837	—
9	Automobiles and trucks	120,572	147,280	+22	406,649	471,487	+16
24	Automobile parts	16,850	22,508	+34	62,295	73,739	+18
13	Railway equipment	12,011	14,033	+17	40,903	44,313	+ 8
64	Other metal products	93,796	106,287	+13	260,064	315,506	+21
33	Miscellaneous manufacturing	28,253	34,862	+23	78,863	95,900	+22
478	Total manufacturing	1,165,682	1,416,876	+22	3,517,080	4,153,721	+18
26	Mining and quarrying	22,480	24,201	+ 8	75,491	71,869	— 5
22	Trade (retail and wholesale)	11,203	13,588	+21	28,227	37,012	+31
14	Service and amusement industries	10,050	8,669	—14	27,629	30,576	+11
540	Total	$1,209,415	$1,463,334	+21	$3,648,427	$4,293,178	+18

Following is a condensed summary, partly estimated, of the changes for this group comprising a substantial segment of American industry.

Sales and Net Income of 478 Manufacturing Corporations in the First Nine Months

(In Millions of Dollars)

	1952	1953	Change Amount	Change %
Receipts from sales, etc.	$61,236	$72,700	+11,464	+19
Total costs, except taxes	53,445	62,469	+ 9,024	+17
Balance before taxes	7,791	10,231	+ 2,440	+31
Federal income & e. p. taxes	4,274	6,077	+ 1,803	+42
Net income after taxes	$3,517	$4,154	+ 637	+18
Taxes to balance before taxes	55%	59%		
Net income per sales dollar	5.7¢	5.7¢		

Reserves for federal income and excess profits taxes payable were increased over last year by 42 per cent. The portion of income taken by such taxes rose from 55 to 59 per cent.

Despite the expansion in aggregate volume of business done, which because of increasing efficiency and lowered unit costs might ordinarily have been expected to bring a widening of profit margins, actually the net margin held at an average of 5.7 cents per sales dollar, the same as the year before.

Changes in Working Capital

In addition to continued heavy outlays on new plant and equipment, corporate business further built up its working capital in the first half of this year, according to a study just released by the Securities & Exchange Commission. Net working capital of all corporations, except banks and insurance companies, is estimated at $88.2 billion as of June 30, 1953. The increase for the first half year was $2.6 billion, compared with an increase in the first half of 1952 of $2.0 billion.

All of the gain in working capital this year arose from a reduction in current liabilities, amounting to $3.0 billion. Federal income tax liabilities decreased by $2.0 billion, reflecting the statutory step-up from 70 to 80 per cent in payment of the previous year's taxes in the first two quarterly instalments. At the same time there was a reduction, partly seasonal, of $1.9 billion in notes and accounts payable, offset by a rise of $800 million in other current liabilities. Changes by major items are shown in the accompanying summary.

Working Capital of All Corporations in U.S., Excluding Banks and Insurance Companies

(In Billions of Dollars)

Current Assets	Dec. 31 1939	Dec. 31 1945	Dec. 31 1952	June 30 1953
Cash	$10.8	$21.7	$30.2	$29.2
U. S. Govt. securities	2.2	21.1	21.0	19.2
Receivables, net	22.1	25.9	64.6	65.2
Inventories	18.0	26.3	62.9	64.8
Other current assets	1.4	2.4	2.4	2.4
Total current assets	54.5	97.4	181.1	180.7
Current Liabilities				
Notes & accounts payable	21.9	25.7	60.8	58.9
Federal income taxes	1.2	10.4	16.4	14.4
Other current liabilities	6.9	9.7	18.4	19.2
Total current liabilities	30.0	45.8	95.5	92.5
Net Working Capital	24.5	51.6	85.6	88.2
Ratios:				
Current assets to current liabilities	1.82	2.13	1.90	1.96
Cash & govt. securities to current liabilities	0.43	0.93	0.54	0.52

On the current assets side, inventories rose by $1.9 billion to a new peak of $64.8 billion, while cash and U.S. government securities together decreased by $2.8 billion. Receivables were up slightly corresponding to the expansion that occurred in dollar sales.

As these increases in inventory and receivables were financed this year out of cash assets without incurring more short-term debt, there was a slight rise of the "current ratio" of total current assets to current liabilities, from 1.90 to 1.95. The ratio of cash plus governments to current liabilities remained practically unchanged at 0.52. Although both of these measures of liquidity have declined sharply from the high points reached during the war, they still stand above 1939 levels.

Uses and Sources of Capital

While net working capital was built up by $2.6 billion in the first half of this year, corporate business invested an estimated $11.4 billion, or four times as much, in modernizing and enlarging plant and equipment. Taking the latter figure at the same rate for the full year 1953, the cumulative total of such expenditures for the eight years since 1945 aggregates $150 billion — an average of over $18 billion annually. This enlargement of capacity and production of goods and services have overcome the shortages accumulated during World War II, satisfied the needs of a population growth of twenty million, and fulfilled the demands of the Korean war.

One of the striking features of this achievement is that the enlargement of physical facilities, plus the capital absorbed by increases in inventories and receivables which accompanied the great expansion in sales at a rising price level, has been financed to the extent of approximately 64 per cent from internal sources. These comprised retained earnings, plus the allowances for depreciation, depletion, and amortization.

In the years since 1945, American corporations as a group have paid out in dividends only 42 per cent of their net income, reinvesting the rest in the business. This compares with an average of 82 per cent paid out in the relatively high earnings period 1926-30, and 89 per cent in the less prosperous era 1936-40.

Of the remaining 36 per cent of the new capital obtained from outside sources since 1945, approximately equal portions came from increases in current borrowing, etc. (accounts payable, short-term loans, income tax reserves, accrued expenses) and from new security issues. The latter have run in a ratio of about two-thirds bonds or notes, and one-third stock. Thus stock issues alone provided only about 6 per cent of the new capital that has been required to build up business to the strong physical and financial position, speaking generally, it is in today. That position was attained mainly through retaining more than half of all postwar earnings.

Net Dividend Payments and Retained Net Income of all Active Corporations in the U. S.

(In Millions of Dollars)

	Net Income after Taxes*	Net Dividend Payts.*		Retained Net Income	
		Amount	% of Net Inc.	Amount	% of Net Inc.
1909	$2,599	$1,567	60	$1,032	40
1910	2,906	1,828	63	1,078	37
1911	2,531	1,866	74	665	26
1912	3,425	1,950	57	1,475	43
1913	3,347	2,167	65	1,180	35
1914	2,371	2,028	86	343	14
1915	4,083	2,055	50	2,028	50
1916	7,408	2,500	34	4,908	66
1917	7,342	3,025	41	4,317	59
1918	4,553	2,620	58	1,933	42
1919	6,307	2,600	41	3,707	59
1920	4,343	2,900	67	1,443	33
1921	24	2,630	†	2,606¶	‡
1922	4,380	2,634	60	1,746	40
1923	5,827	3,299	57	2,528	43
1924	4,998	3,424	69	1,574	31
1925	6,971	4,014	58	2,957	42
1926	6,774	4,439	66	2,335	34
1927	5,880	4,765	81	1,115	19
1928	7,566	5,166	68	2,400	32
1929	8,420	5,823	69	2,597	31
1930	2,455	5,500	†	3,045¶	‡
1931	1,283¶	4,098	†	5,381¶	‡
1932	3,424¶	2,574	†	5,998¶	‡
1933	362¶	2,066	†	2,428¶	‡
1934	977	2,596	†	1,619¶	‡
1935	2,259	2,872	†	613¶	‡
1936	4,273	4,557	†	284¶	‡
1937	4,685	4,693	†	8¶	‡
1938	2,289	3,195	†	906¶	‡
1939	5,005	3,796	76	1,209	24
1940	6,447	4,049	63	2,398	37
1941	9,386	4,465	48	4,921	52
1942	9,433	4,297	46	5,136	54
1943	10,646	4,493	42	6,153	58
1944	10,808	4,680	43	6,128	57
1945	8,502	4,699	55	3,803	45
1946	13,881	5,808	42	8,073	58
1947	18,549	6,561	35	11,988	65
1948	20,734	7,250	35	13,484	65
1949	16,290	7,469	46	8,821	54
1950	22,729	9,125	40	13,604	60
1951	20,068	9,208	46	10,860	54
1952	18,581	9,107	49	9,474	51
1953§	20,600	9,300	45	11,300	55

Sources: 1909-1937 from Temporary National Economic Committee, Monograph No. 12, entitled "Profits, Productive Activities and New Investment", Table VI, based largely upon Treasury Department "Statistics of Income"; 1929-53 from Department of Commerce computations. * Excluding intercorporate dividends. † Payments over 100% not computed. ‡ No percentage computed because of net deficit. ¶ Deficit. § Annual rate, based on estimate by Council of Economic Advisers for first half year.

Prospective Demands on Cash

The drafts upon business cash in the second half of the calendar year '53 are running considerably lighter than during the first, when 80 per cent of the prior year's income taxes were payable and when inventories were accumulating. In the approaching initial half of 1954, however, business again will face a heavy cash drain to satisfy 1953 income tax liabilities, which are expected to be substantially higher in total than those of this year and must be remitted to the extent of 90 instead of 80 per cent in the March and June instalments.

That heavy seasonal demand for cash, except in so far as it has been covered in advance through investments in short-term government securities, is expected to require increased bor-

rowing from banks and may also exert pressure to reduce inventories. On the other hand, if profits can be sustained next year, overall working capital positions will be strengthened further by the expiration of the excess profits tax January 1 — leaving business with more of its earnings — the continued upward trend in depreciation charges involving no cash outlay, and slowing of plant expenditures.

Treasury Bond Financing

The Treasury announced October 26 a cash offering of $2 billion 2¾ per cent marketable bonds dated November 9 and maturing September 15, 1961. The subscription books on the new bonds, which have a term of seven years and ten months, were opened October 28 and closed that evening after a heavy oversubscription. The autumn has produced the most favorable conditions of the year for bond financing and a successful flotation was virtually a foregone conclusion. The new bonds October 30 were quoted on a when-issued basis at 100⅞ bid, 101 asked.

The immediate purpose of the offering is to cover deficit requirements for November and December and the borrowing will put the public debt, now $273 billion, practically up to the $275 billion statutory limit. To insure that there will be leeway for the new issue within the debt limit, the Treasury, effective at the close of business October 23, suspended sales of the two-year Series C Savings notes first offered October 1.

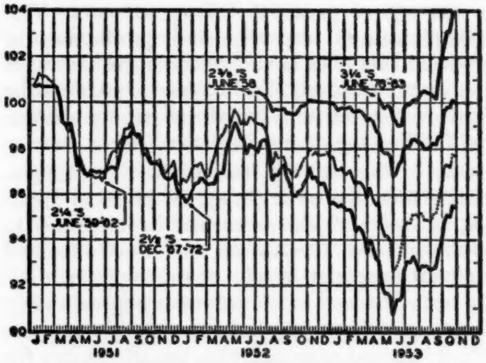
The maximum amount of the offering was predetermined by the public debt limit. The seven years and ten months' term avoids further build-up of the swollen schedule of maturities over the 1954 to 1959 period and fits the program of gradually spacing out public debt maturities. The rate gives the Treasury the benefit of the recent sharp rise in the bond market which in turn has been related to a slowing of credit demands and the easier money policy adopted by the Federal Reserve. It was only two months ago that the Treasury paid 2⅞ per cent on a three and one-half year note issue.

Bull Market in Bonds

The new bond offering, in contrast to the 2½s of 1958 and the 3¼s of 1983, put out the hard way on a declining market earlier this year, is being floated the easy way on a rising market. The earlier offerings, as well as the two 2⅜ per cent bonds floated by the preceding Administration during 1952, were all below par at the bottom of the market on June 2. The recovery in the government bond market since then, given fresh impetus by a collapse of Treasury bill yields after mid-September, has been fully as dramatic as the decline earlier in the year.

During October the thirty-year 3¼s gained 1½ points, reaching a 104 level, as the chart shows. The second longest-term bond outstanding, the Victory Loan 2½s due in 1972, which went as low as 89⅞ at the bottom of the market on June 2, recovered to 95⅝, slightly above the level they held at the beginning of the year. The 2¼s of 1962, which touched 92 early in June, traded late in October as high as 97¾. The 2⅝s of 1958, issued in July, 1952 and down as low as 96¼ earlier this year, recovered to par. Corporate, State and municipal bonds rose sympathetically and new issues were absorbed at yields ⅜ to ⅝ per cent below the June peaks.

The declines in yields on bonds whetted the interest of savings institutions in mortgage investments and narrowed the discounts on FHA and VA paper.



Friday Closing Bid Prices, Selected U.S. Government Bonds
(Last plotting for Thursday, October 29)

In five months the government bond market has advanced far more than it did in the entire 1949 business recession — when the starting point was a pegged level of prices. The move closely parallels the vertical advance during the first four months of 1946 when the rise was propelled by rumors that the Treasury and Federal Reserve might manipulate the market to a point where long-term Treasury's paying 2¼ per cent or even less could be sold. There has been no speculation of this sort during the recent advance; the Treasury has been quick to take advantage of cheapened borrowing costs but the fact that it does so restrains the price advance and moderates speculative interest.

Supply and Demand

Many people are examining the question as to how long bond prices are likely to hold — or improve upon — the levels reached. The answer generally arrived at is that movements are apt

to be controlled basically by business developments affecting the demand for credit, and by Federal Reserve policy determining the supply of credit. The presumption is that periodic Treasury bond offerings will tend to moderate price upswings although — as the record shows — not to the point of preventing the market from reacting in a lively fashion to changing forces of overall supply and demand.

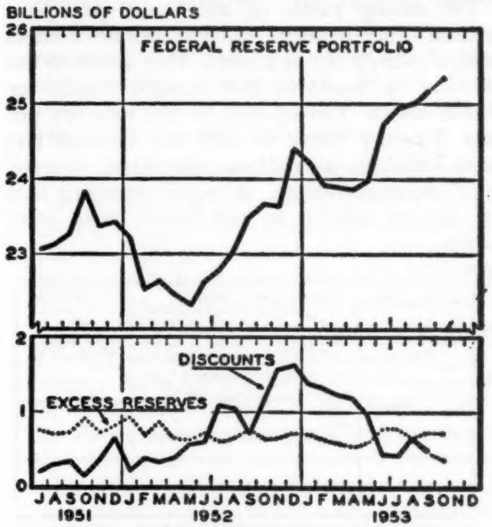
The tightness of credit this spring was the result of booming production and trade, which produced particularly heavy demands for long-term funds and instalment loans, larger than expected Treasury borrowing because of disappointing revenues, all in combination with a Federal Reserve policy of restricting credit supply. Business credit demands have eased since then, partly because some borrowing needs were anticipated during the spring. Other influences curtailing loan demands have been some slippage in business volumes, lower prices of many primary raw materials, tendencies to cut back on inventories, and a record rate of corporate tax reserve accruals.

So far as our big grain and cotton crops are concerned, the price supports and lowered demands have had the effect of moderating borrowing needs of millers and merchants while swelling the burden carried by the Commodity Credit Corporation. The CCC during October shifted $360 million of this burden to the banks by the sale of nine-months' certificates of participation in its loans to farmers. Apart from this transaction, which it is understood may have to be repeated, the increase in bank loan volumes during October was the smallest since 1949. Usually October is a month of strong seasonal expansion.

Federal Reserve Policy

Even more important to the bond market than the change in credit demands has been the radical easing of Federal Reserve credit policy. The Federal Reserve's shift divides into two stages. The first stage, embracing $1.1 billion purchases of government securities between April 29 and July 8, as well as the reductions in bank reserve requirements effective July 1-9, built up excess reserves among the banks and reduced their needs to borrow from the Federal Reserve, broke the spiralling decline in the bond market, dissipated fears of acute credit stringency in the autumn, and established a basis for $5.9 billion Treasury deficit financing July 15.

In August, after the market had adjusted itself, member bank borrowings from the Federal Reserve, as the chart shows, settled down in about even balance with excess reserves, at a $650 million average level. Treasury bill yields, as high as 2⅜ per cent early in June, held an average between 2 and 2⅛ per cent in July and August.



Federal Reserve Holdings of Government Securities and Member Bank Excess Reserves and Discounts
(Monthly averages of daily figures)

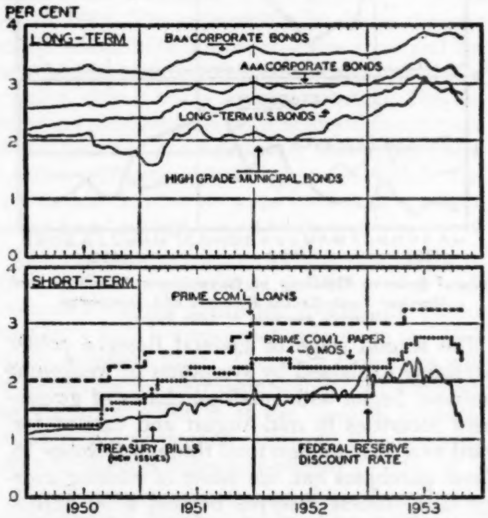
The second stage of Federal Reserve policy, ostensibly explained by symptoms of weakening business, began with small purchases of government securities in mid-August and carried forward to a $384 million total through October 28. These purchases had the effect of pushing average daily excess reserves beyond $700 million for October against a borrowing average reduced to $360 million — the easiest statistical position the banks have enjoyed since the early part of 1952. The change, together with slackened loan demands, and impressions that the Federal Reserve was going to keep money in plentiful supply, were sufficient to bring a collapse of Treasury bill yields from a 1.95 per cent level as late as September 14 down below 1¼ per cent late in October. Swings in bill yields of this speed and magnitude have not been witnessed since the crisis year of 1933.

Money Rates Soften

The wide open break in bill yields led to three successive ⅛ per cent reductions, from 2¾ to 2⅜ per cent, in commercial paper rates and sharper reductions in yields available on Treasury certificates and early Treasury note and bond maturities. The 2⅝ per cent one-year certificates put out September 15 in exchange for maturing 2 per cent bonds, for example, reached a premium of ⅞ point, reducing the yield to the buyer below 1⅝ per cent. The 2⅞ per cent three and one-

half year notes, also issued in connection with the September 15 exchange operation, went to a premium of 1⅞ points, cutting the return to the buyer to 2.29 per cent.

The fading yields on short-term paper increased bank deposits since corporate holders tended to drop out as buyers. This added to the pressure on banks to find suitable outlets for excess funds. The offering of the new 2¾ per cent Treasury bonds of 1961 has afforded one such outlet to institutions adequately covered with earlier maturities. It is not surprising that the largest interest in the bonds came from banks.



Bond Yields and Short-Term Money Rates, Weekly

Concentration of Early Maturities

The new 2¾ per cent marketable bond offering, put out under these auspicious circumstances, represents the fifth effort the Treasury has undertaken over the past two years to deal with the overconcentration of public debt maturities in the years immediately ahead. During the period 1946-51 – years of recurrent controversy over the Federal Reserve's activities in pegging government securities prices – no marketable bonds were issued. The stress was laid on short-term Treasury bills, certificates and notes, plus nonmarketable obligations giving the holder optional rights to demand cash within five years. Thus the concentration of early maturities mounted to a point where four-fifths of the debt matured at the option of the holder within five years.

This proportion has not been reduced despite the four issues of marketable bonds put out in March and July of 1952 and February and May of this year, as set out in the table below. The 2⅜s sold for deficit financing July 1, 1952 have already, through passage of time, moved into the within-five-years category and the 2½s issued on an exchange offering in February will fall into this category at the year-end. The real funding job, clearly, will have to invoke long-term bonds with maturities beyond ten, twenty and thirty years. The thirty-year 3¼s, issued May 1, broke a path for additional issues of this character.

Postwar Marketable Treasury Bond Issues

(Dollar figures in billions)

Issued	Rate	Maturity	Term	Amt. Issued Cash	Amt. Issued Exch.*	Price Oct. 30
1932						
Mar. 1	2⅜	3/15/1957-59	7 yrs.+	—	$0.9	100¼
July 1	2⅜	6/15/1958	6 yrs.—	$4.2	—	100
1953						
Feb. 15	2½	12/15/1958	6 yrs.—	—	0.6	100⅝
May 1	3¼	6/15/1978-83	30 yrs.+	1.2	0.4	104
Nov. 9	2¾	9/15/1961	8 yrs.—	2.0	—	100⅞

* Exchanged for maturing obligations.

Running Fast to Keep Even

In a speech before the American Bankers Association in mid-September, Mr. W. Randolph Burgess, deputy to the Secretary of the Treasury, pointed out how, "with this huge debt, getting shorter day by day, you have to run fast to keep even." Nevertheless, there have been important gains. The market has been conditioned to the periodic acceptance of Federal Government bonds, in a variety of maturity ranges, without reliance on any Federal Reserve promises of par support and with full appreciation of the possibilities of two-way price fluctuations.

Agricultural Conditions

Although drought has taken its toll in many sections of the country, the Department of Agriculture's latest report indicates that this year's crop output is the third largest ever, surpassed only by 1948 and 1952. With production of livestock products, particularly beef and veal, expected to be above last year, total farm output in 1953 of crops and livestock combined may approach last year's all-time high.

Plantings this year were stimulated no doubt by continued high price supports. In addition, many farmers wanted to be on record with a large acreage of those basic crops which, in compliance with present farm legislation, appeared likely to be restricted in 1954.

Heavy abandonment of winter wheat acreage as a result of drought in the Southwest and Central Great Plains was largely offset by a big winter crop in the corn belt States and by an abundant spring crop, other than durum. While indicated total wheat production of 1,163 million bushels is 128 million under last year, this crop

added to a near record carryover provides a record 1953-54 wheat supply of 1,725 million bushels, excluding possible imports. Since this is sharply in excess of "normal", Secretary Benson had no alternative but to proclaim acreage allotments and marketing quotas on the 1954 crop. The quotas were approved August 14 by more than 87 per cent of the producers voting in a referendum, indicating a preference for restricted production at high prices over unlimited production at lower prices.

Supplies of most other food crops are also above last year. The rye crop is nearly 10 per cent larger, though still below average, and is augmented by heavy imports from Canada. Rice production is at a record level and the potato crop is larger.

The latest official estimate of the cotton crop is about 15.6 million bales against nearly 15.2 million in 1952. With a carryover of 5.5 million bales, double the previous year, the total supply is the largest since 1949-50. Since the current crop alone is some 3 million or more bales above indicated distribution, the Secretary of Agriculture has proclaimed, as with wheat, acreage allotments and marketing quotas on the 1954 crop. Quotas to become effective must be favored by two-thirds of the producers in the referendum December 15, but there is little question of their approval. However, the cotton allotment of 17.9 million acres represents a cut of nearly 7 million below this year's plantings, and Southern Congressmen are expected to press for a higher allotment when Congress reconvenes. Whether this move will be as successful as that which has boosted the minimum national wheat acreage allotment from 55 million to 62 million acres remains to be seen.

Among other crops, flaxseed production is sharply above a year ago and peanut production is somewhat higher. Output of tobacco is nearly 10 per cent under last year, but carryovers are at record levels. Drought has cut the soybean crop somewhat below last year.

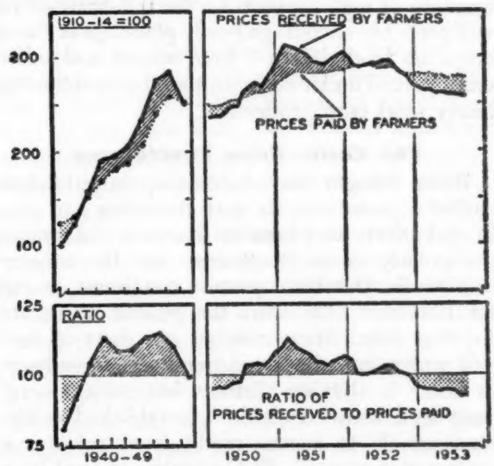
Feed Grain Supplies Ample

Combined production of the four major feed grains — corn, oats, barley and sorghum grain — is indicated slightly below 1952, but the total supply, including carryover, is slightly above last year and well above average.

The corn crop of 3,196 million bushels, while 110 million under 1952, is relatively large and is reported high in quality. Including carryover, the indicated 1953-54 supply will total a near record of about 4 billion bushels. While the Secretary of Agriculture has announced that marketing quotas will not be proclaimed on corn, acreage allotments, which do not require approval of farmers to become effective, are a distinct possibility. Producers who plant in excess of allotments are ineligible for price support, but, in contrast to violations of marketing quotas, no cash penalties are incurred. Of our six basic crops, only corn and rice have not yet been placed under acreage allotments.

Farm Prices and Income Down

Although farm prices have steadied somewhat during the past several months, in mid-October they were 11 per cent below a year earlier and 20 per cent under the record high of February 1951. Farm costs were only 3 per cent less than a year earlier, so that the overall ratio of prices received by farmers to prices of items they purchase — the so-called parity ratio — is now down to 91 per cent, against 100 per cent a year ago. As shown in the accompanying chart, however, the decline in the parity ratio has taken place only after a long period during the war and postwar years when the farmer enjoyed prices averaging well above parity.



Prices Received and Paid by Farmers and the "Parity Ratio"

Lower farm product prices are more than offsetting a larger volume of farm marketings this year. Farmers' cash receipts from marketings this year are estimated at about $31.2 billion, 4 per cent under 1952. With farm costs remaining relatively sticky, the Department of Agriculture has estimated that farmers' realized net income this year will be $12.5 billion, about $1 billion under 1952, but still above the post World War II low of $12.3 billion received in 1950. The outlook for 1954 is uncertain, but Department of Agriculture economists have pre-

dicted that farm prices and incomes next year will be about the same as during 1953.

Prices of many farm products currently are below their respective loan levels. As a result, government price support operations are expected to be an important price sustaining factor in the year ahead, although, as demonstrated this past year in the case of corn and wheat, large quantities under price support provide no definite assurance that prices will rise to loan levels. The latest monthly report of the Commodity Credit Corporation, as of August 31, shows this agency had $3.7 billion invested in price support programs, more than double a year ago. By the time another year rolls around this investment could be close to $6 billion.

Present legislation assures price support at 90 per cent of parity on all basic crops next year, unless producers unexpectedly fail to approve any marketing quotas proclaimed. In addition, the Secretary of Agriculture has continued for 1954 this year's 85 per cent of parity support rates for barley, rye, oats, and sorghum grain. However, he lowered the '54 support on flaxseed from 80 per cent to 70 per cent of parity. Continuance of high supports on the non-basic crops will probably encourage heavy plantings of these crops on land diverted from wheat and other crops placed under controls, thereby maintaining heavy total crop production.

The Cattle Price Controversy

While drought has reduced crop output below earlier expectations, its most devasting and prolonged effects have been on livestock and ranges, particularly in the Southwest. For the country as a whole, October 1 pasture conditions, except for 1934 and 1936, were the poorest on record for that date. Many ranches are short of feed and water, and the Department of Agriculture, in order to alleviate distress, has made emergency feed loans available to established cattlemen unable to secure credit from private or cooperative sources. CCC supplies of feed have been made available to eligible farmers and ranchers at reduced prices. In recent weeks, the drought has become more widespread, even affecting the eastern half of the country. Despite helpful rains during the past week, more moisture is still needed in most drought areas. A cooperative Federal and State program has been set up to make hay available for disaster areas, with the Federal Government paying for its transportation and the States providing funds for its procurement and distribution.

Despite these measures, some ranchers have been forced to market cattle prematurely, thereby glutting markets which, due to the record cattle population and the normal seasonal increase in grass cattle receipts, were already receiving heavy shipments. The inevitable result has been a sharp decline in average beef cattle prices received by farmers to 14.70 cents per pound, nearly 7 cents below a year ago and barely more than one half of the postwar peak average of 30.30 cents in April 1951. As a result, the House Agricultural Committee, several western Senators, and some farm groups, including the National Farmers Union, have put pressure on the Secretary of Agriculture to support prices of live cattle. On the other hand, the American National Cattlemen's Association, the National Grange, the American Farm Bureau Federation, and various other groups continue to oppose price supports for beef cattle.

Thus far the Secretary has been unwilling to support cattle prices other than indirectly through the present beef purchase program which may be stepped up. The American Farm Bureau has announced its support of this program, declaring it to be more practical than direct supports on live cattle.

Meanwhile, some livestock spokesmen and Department of Agriculture experts have expressed a general feeling that cattle prices will strengthen in the months ahead. Drought, while painful to the ranchman, has, with lower prices, halted the upturn in cattle numbers. With beef consumption this year estimated at a record 75 pounds per capita, the American people, as Secretary Benson said, "are literally eating us out of the beef problem."

Decline in Retail Beef Prices

Beef prices have had repercussions among consumers as well as cattlemen. When the Bureau of Labor Statistics consumer price index showed a 6 per cent rise in retail prices of beef from mid-July to mid-August, some groups charged that such prices should instead be following farm prices of cattle downward. It must be remembered, however, that only choice beef is included in the consumer price index, and that during the period in question choice steers actually rose in price in Chicago by about 14 per cent. The average cattle price received by farmers, on the other hand, includes not only the choice and prime grades but also the lower grades which have been particularly weak and have dragged the average down.

A comparison of retail prices of choice beef (other grades not reported) collected weekly by the New York City Department of Markets, and prices of choice grades of cattle and calves at

Chicago, as quoted in the last weeks of October 1952 and 1953, is given in the following table.

Changes in Prices of Live Cattle and Calves Compared with Retail Beef and Veal Prices, October 1952-53

(Price per Pound)

Choice Cattle Prices at Chicago	Week Ended Oct. 31, 1952	Week Ended Oct. 29, 1953	Percent Change
Steers	31.55c	25.50c	—19
Heifers	31.00c	23.00c	—26
Vealers	33.00c	23.00c	—30
Calves	24.50c	17.00c	—31
Choice Retail Cuts at New York City	**Week Ended Oct. 30, 1952**	**Week Ended Oct. 29, 1953**	**Percent Change**
Porterhouse steak	$1.25	$1.10	—12
Sirloin steak	1.10	0.89	—19
Chuck steak	0.75	0.55	—27
Round steak	1.19	1.05	—12
Short ribs	0.54	0.49	— 9
Beef liver	0.89	0.65	—27
Plate and navel	0.39	0.25	—36
Regular chopped beef	0.65	0.49	—25
Oxtails	0.39	0.29	—26
Veal cutlets	1.45	1.29	—11
Veal loin chops	1.10	0.98	—11
Veal shoulder roast	0.59	0.49	—17

This shows that meat as well as cattle prices have declined in a year-to-year comparison. Greater declines at retail have occurred in the cheaper cuts of meat. This is only natural for consumers during periods of high incomes tend to buy the more expensive cuts while passing over the cheaper, but just as nutritious, cuts. This results in surpluses of the cheaper cuts which, in order to be moved, must be marked down in price.

Any drop in live cattle prices not fully reflected in retail beef prices is explained by costs of getting the meat from the farm to the consumer. Since 1945 transportation costs on meat and livestock have risen 88 per cent and 72 per cent, respectively. Expenses of packaging, storage, refrigeration, and distribution have soared. Labor costs in the meat packing industry have risen 104 per cent since 1945. Increased taxes and handling charges at each stage in the chain of distribution are also factors keeping prices high.

An Old Bone of Contention

The wide spread between what farmers get and what consumers pay is an old bone of contention. There has been much castigation of the "middleman", whoever he may be thought to be, as the villain in the piece. Agitation over these price differences is not confined to this country, as illustrated only recently in despatches from France that "both farm and labor organizations have accused . . . distributors of reaping large profits from the disparity of the prices received by the farmer and those paid by the consumer."

What people seem to forget is the long and costly process of getting food from the farm to the table, with valuable services rendered all along the line. As for the charge of exorbitant profits, everyone should know that transportation is a public utility closely regulated by the authorities, while no business is more keenly competitive or operates on closer margins than meat packing and food retailing. In this country the advent of the chain store has immensely stepped up the efficiency and economy of food distribution, from which the consumer has benefited. Yet the irony is that the expansion of the chain store was fought bitterly in this country for years; only recently has this agitation died down and the chain store come to enjoy full acceptance in the community.

Finally, talk of these price spreads calls to mind organized labor's contention that wage increases are essential to "maintain purchasing power" and "stave off depression." An example of the way this theory works out in practice is afforded by the strike, in progress as we go to press, of milk drivers and processing plant employes in the New York metropolitan area for shorter hours and higher wages. Currently wages of plant workers average $82 weekly, while wages plus commissions of drivers average $115. The union's demands include a pay rise of $15 a week, a cut in working hours from forty a week to thirty-five, increased welfare, holiday and vacation allowances and a basic overhauling of work rules. Management claims that granting union demands would require a rise in milk prices of at least two cents a quart.

Thus each hike for workers engaged in the various stages of food processing and distribution tends to widen the spread between what the farmer gets and the consumer pays. The question is, whose purchasing power is being increased? Certainly not the farmer's or the general consumer's.